



April 24, 2000

MR. PRESIDENT, MR. SPEAKER AND HONORABLE MEMBERS OF THE LEGISLATURE:

Presented, herewith, is my budget recommendation for the fiscal year beginning July 1, 2000. It has been prepared in accordance with the Constitution and applicable statutes, and provides financial and program information to assist you in making informed decisions as you consider appropriations for the coming year. In accordance with Article VII, Section 11 of the Constitution, I will also prepare the original appropriation bill in conformity with this document. However, I am also planning to present a set of amendments to the bill to incorporate changes that may be necessary as a result of actions taken during the special legislative session that began on March 19, 2000.

Because of declining growth in our state's traditional revenue sources – sales taxes, corporate taxes, and mineral revenues – this year is the most difficult budget year my administration has faced. Lower employment growth and internet and catalog sales have caused the growth in sales taxes to drop. They are growing at one-quarter the rate of personal income. Corporate income and franchise taxes followed a similar pattern due to a slow-down in the oil patch, dropping ten percent in the current year with an additional decrease projected next year. Further, for fiscal year 2000-2001, severance tax collections are expected to decline eight percent while royalties are expected to drop by ten percent. Of the major revenue sources, only individual income taxes are keeping pace with personal income growth.

The problems we face are the result of declining revenues, not runaway growth in state government. Working with the legislature, my administration has held the line on state government growth and forced state agencies to absorb merit raises and inflation for four straight years. While the previous two administrations added 12,000 employees to state government, we have added only 2,000, most notably in higher education and corrections. We used surplus money to invest in one-time expenses, and paid off debt making Louisiana a leader in debt reduction. And, together, we decided in 1997 to phase-out the inheritance tax and to reduce \$110 million in sales taxes – the biggest tax cuts made in Louisiana going back seven administrations. These, nevertheless, left us without much cushion in our revenue base.

Due to our decision last year to place most of the Tobacco Settlement funds in trust as well as decisions made over several years to defease state debt on a short-term basis, we also faced increased expenditure requirements this year. Ultimately, we began the new year facing a potential shortfall from a continuation budget of nearly \$600 million, assuming the renewal of the three cent sales tax exemptions.

My first course of action when confronted by this potential deficit was to pull together a group from the House, the Senate, the Fiscal Office, the Budget Office, and my staff to review where we could make cuts. As a result, over \$320 million worth of cuts are included in this budget document. Significant reductions in spending are proposed in many areas, including a proposal to reduce the number of authorized positions by approximately 1,600. These position reductions will be partially offset by the addition of almost 900 positions, most notably in corrections, education, health care and other areas under potential court intervention, resulting in the a net of about 800 fewer authorized positions. We have also exempted education from most of our proposed reductions because of our

continued commitment to the improvement of the educational system in our state, and our recognition of its centrality to Louisiana's future economic growth and prosperity.

These proposed cuts come on top of cuts my administration has already made in the current year's budget. These cuts were required because revenue collections were coming in well below the official forecast. At that time, I issued an executive order freezing expenditures in most agencies of state government, exempting higher education and other priority areas. I wanted to make sure that we did not experience budgetary shortfalls this year that would require us to make reductions in education spending. I have maintained my commitment to education in this budget submission, even in the face of difficult budgetary challenges. I continue to believe that we must use our first dollars to improve our educational system, not our last dollars.

Despite my prioritization of education spending in this budget, it is truly a "bare bones" budget. It does not reflect the significant investments in k-12 and higher education that I believe are necessary for Louisiana to compete and prosper in the 21st century. We simply must find a way to pay our teachers and college faculty competitive salaries if we are to end the "brain drain" and give our children the best education possible. I will not abandon this goal.

At this time, however, our challenge is to maintain our current education investments and to repair the significant deficit we have in spending for public health programs. Before we can restructure our tax code and make the educational investments critical to Louisiana's future, we need to solve the current budgetary shortfall that we face.

Our first point of departure in this effort must be the renewal of the three cents sales tax on food, utilities and other traditionally exempt items that have been renewed on a "temporary" basis for over a decade. I consider the renewal of our existing tax base absolutely essential and have included it in the call for the Special Session. At a time when we can't find the money to give teachers a pay raise and are making significant cuts in the Medicaid program, we absolutely must maintain our existing revenue base.

The \$326.8 million that the renewal of the sales tax brings is central to our ability to maintain current state services. When matched with \$750 million of federal funds as my budget proposes, these sales taxes are responsible for nearly \$1.1 billion in funding for the charity hospitals and Medicaid services to the mentally retarded in Louisiana. Could these cuts be made differently? Sure, but because of constitutional and statutory dedications that protect two-thirds of the budget, our only real alternative to significant cuts in health care services for the poor would have been proposing the closure of several college and university campuses. Neither choice is acceptable, which is why the renewal of the existing sales taxes is so important.

Even if the suspension of sales tax exemptions is renewed, the total budget will still be over \$700 million below last year, and significantly below what I believe is required to provide a minimally acceptable level of state services. Therefore, I believe that we ought to close the remaining gap with \$269 million in new revenues, some of which would be matched with federal funds. Even if we raise an additional \$269 million as my budget proposes, we would still have an overall budget that is over \$100 million smaller than our current year's budget.

In addition to the above, I have included in the Special Session call an item which allows the Legislature to consider increasing fees for various departments that may necessitate amendments to the Executive Budget and appropriations bill. In particular, the Department of Wildlife and Fisheries has proposed increases in fees that will help meet the current levels of demand for protection of wildlife habitat and fisheries resources. Further, the Office of Conservation in the Department of Natural Resources has proposed eliminating all state general fund support with self-generated revenue. The spending items associated with the proposed revenue increases are shown in the Department of Wildlife and Fisheries' and the Department of Natural Resources' budget submission.

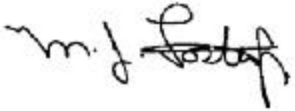
I am also offering legislation during the special session to replace the Department of Economic Development (DED) with a non-profit corporation to be known as "Louisiana, Inc." This entity will assume the current economic development efforts of the DED, and be fully accountable to both the executive and legislative branches of state government. However, Louisiana, Inc. will operate in the manner of a private sector corporation in pursuit of economic development objectives, and is anticipated to be able to operate "at the speed of business". There will be no new state funds required for the operations of Louisiana, Inc., but I have included a one-time amount of \$3 million to cover any transitional expenses for staffing and new technology associated with closing DED and opening Louisiana, Inc.

This year's budget is complex and can be confusing as a result of uncertainties regarding tax renewals and the requirement to raise a significant amount of new revenue to continue to provide basic state services. I have attempted to present my budget recommendation as clearly, concisely and simply as possible.

We are at an important crossroads in Louisiana. We have a chance to build on the reforms of the past four years and prepare our citizens for the future. But before we can address the education investments that are so critical to our future, we must first settle on the appropriate level of funding for basic state services. That will be our challenge this Spring as we work together to pass an appropriations bill and revenue measures that are required to run state government in a way that addresses the priorities of our citizens.

I look forward to working with you and, as always, I and my staff stand ready to assist you in any way possible as you consider this budget and the revenue necessary to fund it.

Sincerely,

A handwritten signature in black ink, appearing to read "M.J. Foster, Jr.", with a stylized flourish at the end.

M.J. "Mike" Foster, Jr.

March 29, 2000

Acknowledgments

M. J. "Mike" Foster, Jr
Governor

Mark C. Drennen
Commissioner of Administration

Don J. Hutchinson
Deputy Commissioner of Administration

Ray L. Stockstill
Acting State Director of Planning and Budget
Office of Planning and Budget

Mike Hoffman
Acting State Deputy Director
of Planning and Budget
Office of Planning and Budget

Joan M. Wharton
State Planning Management Director
Planning Section
Office of Planning and Budget

The Executive Budget Supporting Document was prepared by the staff of the Office of Planning and Budget, under direction of Ray L. Stockstill, *Acting State Director of Planning and Budget*, and coordination of Mike Hoffman, *Acting State Deputy Director of Planning and Budget*. That Staff includes:

State Economist
David Hoppenstedt, Ph.D.

Senior Budget Analyst
Bill Gunter

Dee'layn Cothorn

Ernest F. LeBlanc , Jr.

Administrative Support
Debra Lang

Technical Support
Richard M. "Butch" Dugas
Information Technology Management Consultant
Louisiana Office of Information Services

Staff

Mark Antoon
Monique Appeaning
Mike Barbier
Keina Bell
Erin Bielkiewicz
Ann Bland
Melinda Bringol
Tanitta Chambers
Glen Daigre

Elizabeth Davis
Barry Dusse'
Paul Fernandez
Krista Firmin
Joel Hincks
Heather Hoolahan
Robin Hote
Shawn Hotstream
Belinda Kennedy

Laura King
Carolyn Lane
Mary Jane Lange
William Little
Lesley Mautone
Evelyn McWilliams
Leslye Milano
Mike Murray
Gwendolyn Nixon

Crystal Price
Bob Rachal
L. J. Schmitt
Carmane Stepter
Eddriene Sylvester
Stephanie Wade
Christopher Warner
Joel Watkins